

**REPORT OF THE AUDIT OF THE
CALLOWAY COUNTY
SHERIFF'S SETTLEMENT - 2003 TAXES**

April 26, 2004



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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
Finance and Administration Cabinet
Honorable Larry Elkins, Calloway County Judge/Executive
Honorable Larry W. Roberts, Calloway County Sheriff
Members of the Calloway County Fiscal Court

The enclosed report prepared by Percy & Gray, PSC, Certified Public Accountants, presents the Calloway County Sheriff's Settlement - 2003 Taxes as of April 26, 2004.

We engaged Percy & Gray, PSC to perform the financial audit of this statement. We worked closely with the firm during our report review process; Percy & Gray, PSC evaluated the Calloway County Sheriff's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

Crit Luallen
Auditor of Public Accounts

Enclosure



Kevin P. Peercy, CPA

Linda Gray, CPA



**REPORT OF THE AUDIT OF THE
CALLOWAY COUNTY
SHERIFF'S SETTLEMENT - 2003 TAXES**

April 26, 2004

EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
CALLOWAY COUNTY
SHERIFF'S SETTLEMENT - 2003 TAXES

April 26, 2004

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2003 Taxes for Calloway County Sheriff as of April 26, 2004. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The Sheriff collected taxes of \$8,936,257 for the districts for 2003 taxes, retaining commissions of \$337,839 to operate the Sheriff's office. The Sheriff distributed taxes of \$8,588,035 to the districts for 2003 Taxes. Taxes of \$1,488 are due to the districts from the Sheriff and refunds of \$710 are due to the Sheriff from the taxing districts.

Report Comment:

- Lacks Adequate Segregation of Duties

Deposits:

The Sheriff's deposits were insured and collateralized by bank securities.

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Kevin P. Peercy, CPA

Linda Gray, CPA



To the People of Kentucky

Honorable Ernie Fletcher, Governor

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Honorable Larry W. Roberts, Calloway County Sheriff

Members of the Calloway County Fiscal Court

Independent Auditor's Report

We have audited the Calloway County Sheriff's Settlement - 2003 Taxes as of April 26, 2004. This tax settlement is the responsibility of the Calloway County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Calloway County Sheriff's taxes charged, credited, and paid as of April 26, 2004, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated November 23, 2004, on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
Finance and Administration Cabinet
Honorable Larry Elkins, Calloway County Judge/Executive
Honorable Larry W. Roberts, Calloway County Sheriff
Members of the Calloway County Fiscal Court

Based on the results of our audit, we present the accompanying comment and recommendation, included herein, which discusses the following report comment:

- Lacks Adequate Segregation of Duties

Respectfully submitted,

A handwritten signature in cursive script that reads "Percy and Gray, PSC".

Percy and Gray, PSC

Audit fieldwork completed -
November 23, 2004

CALLOWAY COUNTY
LARRY W. ROBERTS, COUNTY SHERIFF
SHERIFF'S SETTLEMENT - 2003 TAXES

April 26, 2004

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 1,294,972	\$ 1,904,506	\$ 3,006,741	\$ 1,459,587
Tangible Personal Property	160,541	185,017	269,991	377,616
Intangible Personal Property				102,901
Inventory in Transit		27,379		
Fire Protection	991			
Increases Through Exonerations	755	1,236	2,132	816
Franchise Corporation	99,180	123,378	180,891	
Additional Billings	1,048	1,637	2,677	1,190
Limestone, Sand, and Mineral Reserves	42	72	133	48
Bank Franchises	90,477			
Penalties	10,050	15,185	25,184	11,871
Adjusted to Sheriff's Receipt	1	46	1	20
Gross Chargeable to Sheriff	<u>\$ 1,658,057</u>	<u>\$ 2,258,456</u>	<u>\$ 3,487,750</u>	<u>\$ 1,954,049</u>
<u>Credits</u>				
Exonerations	4,746	7,183	12,412	6,740
Discounts	22,306	32,181	48,482	30,480
Delinquents:				
Real Estate	26,530	41,086	72,471	29,882
Tangible Personal Property	719	901	2,035	1,322
Intangible Personal Property				336
Uncollected Franchise	25,764	29,086	27,393	
Total Credits	<u>\$ 80,065</u>	<u>\$ 110,437</u>	<u>\$ 162,793</u>	<u>\$ 68,760</u>
Taxes Collected	\$ 1,577,992	\$ 2,148,019	\$ 3,324,957	\$ 1,885,289
Less: Commissions *	67,352	90,326	99,749	80,412
Taxes Due	\$ 1,510,640	\$ 2,057,693	\$ 3,225,208	\$ 1,804,877
Taxes Paid	1,508,435	2,054,712	3,221,991	1,802,897
Refunds (Current and Prior Year)	1,661	2,539	3,873	1,974
Due Districts or (Refunds Due Sheriff)		**		
as of Completion of Fieldwork	<u>\$ 544</u>	<u>\$ 442</u>	<u>\$ (656)</u>	<u>\$ 6</u>

* and ** See Next Page

The accompanying notes are an integral part of this financial statement.

CALLOWAY COUNTY
 LARRY W. ROBERTS, COUNTY SHERIFF
 SHERIFF'S SETTLEMENT - 2003 TAXES
 April 26, 2004
 (Continued)

* Commissions:	
10% on	\$ 10,000
4.25% on	5,215,527
4% on	385,775
3% on	3,324,956
** Special Taxing Districts:	
Library District	\$ 132
Health District	88
Extension District	(12)
Jail District	276
Fire District	(42)
	<hr/>
Due Districts or (Refunds Due Sheriff)	<u>\$ 442</u>

The accompanying notes are an integral part of this financial statement.

CALLOWAY COUNTY
NOTES TO FINANCIAL STATEMENT

April 26, 2004

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of April 26, 2004, the Sheriff's deposits were fully insured or collateralized at a 100% level with collateral of pledged securities held by the Sheriff's agent in the Sheriff's name.

CALLOWAY COUNTY
NOTES TO FINANCIAL STATEMENT
April 26, 2004
(Continued)

Note 3. Tax Collection Period

A. Property Taxes

The real and personal property tax assessments were levied as of January 1, 2003. Property taxes were billed to finance governmental services for the year ended June 30, 2004. Liens are effective when the tax bills become delinquent. The collection period for these assessments was October 5, 2003 through April 26, 2004.

B. Limestone Sand and Gravel

The property tax assessments were levied as of January 1, 2003. Property taxes are billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was December 22, 2003 through April 26, 2004.

Note 4. Interest Income

The Calloway County Sheriff earned \$3,246 as interest income on 2003 taxes. The Sheriff distributed the appropriate amount to the school district as required by statute, and the remainder will be used to operate the Sheriff's office. As of November 23, 2004, the Sheriff had overpaid \$90 in interest to the school district and owed \$89 in interest to his fee account.

Note 5. Sheriff's 10% Add-On Fee

The Calloway County Sheriff collected \$38,195 of 10% add-on fees allowed by KRS 134.430(3). This amount will be used to operate the Sheriff's office.

Note 6. Advertising Costs And Fees

The Calloway County Sheriff collected \$1,725 of advertising costs and \$7,882 of advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). The Sheriff distributed the advertising costs to the county as required by statute, and the advertising fees will be used to operate the Sheriff's office.

COMMENT AND RECOMMENDATION

CALLOWAY COUNTY
LARRY W. ROBERTS, COUNTY SHERIFF
COMMENT AND RECOMMENDATION

As of April 26, 2004

INTERNAL CONTROL – REPORTABLE CONDITION AND MATERIAL WEAKNESS:

Lacks Adequate Segregation Of Duties

Due to the entity's diversity of official operations, small size and budget restrictions, the official has limited options for establishing an adequate segregation of duties. The Sheriff has primarily assigned one deputy to perform all of the accounting functions of the office. We recommend that the Sheriff periodically review this work in order to create compensating controls to offset this internal control weakness. Examples of compensating controls are: 1) comparing source documents to the receipts and disbursement ledgers and then to the monthly tax reports; 2) having bank deposits compared to the receipts ledger, and 3) comparing checks to monthly tax reports and claims before they are mailed.

Sheriff's Response:

No response

PRIOR YEAR:

In the prior year, the Sheriff failed to provide adequate segregation of duties. This has not been corrected.

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REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Kevin P. Peercy, CPA

Linda Gray, CPA



The Honorable Larry Elkins, Calloway County Judge/Executive
Honorable Larry W. Roberts, Calloway County Sheriff
Members of the Calloway County Fiscal Court

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the Calloway County Sheriff's Settlement - 2003 Taxes as of April 26, 2004, and have issued our report thereon dated November 23, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Calloway County Sheriff's Settlement -2003 Taxes as of April 26, 2004 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Calloway County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. A reportable condition is described in the accompanying comment and recommendation.

- Lacks Adequate Segregation Of Duties

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable condition described above to be a material weakness.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

A handwritten signature in cursive script that reads "Percy and Gray, PSC".

Percy and Gray, PSC

Audit fieldwork completed -
November 23, 2004

